

Message Text

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ACTION EA-09

INFO OCT-01 IO-13 ISO-00 OMB-01 ABF-01 TRSE-00 COME-00

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FM AMEMBASSY SEOUL

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INFO USDA WASHDC

AMEMBASSY TOKYO

USDEL MTN GENEVA

AMCONSUL HONG KONG

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USDA FOR OGSM/KO STEPHENS AND FAS/IMD COTTON W. DAVIS

HONG KONG FOR REG FINATT

E.O. 11652: N/A

TAGS: ETRD, EFIN, EAGR, MTN, KS

SUBJECT: KOREAN FOREIGN EXCHANGE CONTROLS EASED

REF: SEOUL 2378 (NOTAL)

SUMMARY: KOREAN MINISTRY OF FINANCE LIBERALIZES FOREIGN EXCHANGE CONTROL REGULATIONS TO PERMIT RESIDENT FOREIGN BRANCH BANKS TO PROVIDE FOREIGN EXCHANGE FINANCING WITH ONE YEAR MATURITIES FOR THE IMPORT OF RAW COTTON FOR EXPORT USE AND VARIOUS OTHER PRUPOSES. END SUMMARY.

1. NEW REGULATIONS ISSUED BY THE ROKG MINISTRY OF FINANCE (MOF), EFFECTIVE MAY 4, 1977, PERMIT RESIDENT FOREIGN BRANCH BANKS TO PROVIDE FOREIGN EXCHANGE FINANCING TO DOMESTIC INDUSTRIES WITH A MATURITY OF ONE YEAR, INSTEAD OF THE PREVIOUS MACIMUM FOR SHORT-TERM FINANCING OF 180 DAYS. THE ORIGINAL MATURITY CAN BE UNCLASSIFIED

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EXTENDED ONE TIME ONLY UP TO A MAXIMUM OF ONE HALF OF THE ORIGINAL MATURITY, MAKING THE EFFECTIVE MAXIMUM ONE AND HALF YEARS.

2. THIS FINANCING MAY ONLY BE USED FOR THE FOLLOWING PURPOSES:

1. IMPORT OF IRON ORE, COOPER ORE, PHOSPHATE ORE (ROCK),

AND SCRAP IRON.

2. IMPORT OF THE FOLLOWING ITEMS FOR USE AS RAW MATERIAL FOR EXPORT PRODUCTION: RAW COTTON, WHEAT, CORN, SOYBEANS AND BEEF TALLOW.

3. WORKING CAPITAL FOR FOREIGN-INVESTED FIRMS UP TO A CEILING OF 20 PERCENT OF THE VALUE OF THE FOREIGN INVESTOR'S EQUITY CAPITAL.

3. THE LEVEL OF FOREIGN EXCHANGE FINANCING FOR CATEGORIES 1 AND 2 ABOVE IS RESTRICTED TO THE VALUE OF THE IMPORT MINUS THE PRIOR IMPORT DEPOSIT REQUIREMENT APPLICABLE IF IMPORTED ON A DEFERRED PAYMENT BASIS (20 PERCENT DEPOSIT FOR CATEGORY 1 AND 15 PERCENT FOR CATEGORY 2). THE INTEREST TERMS MAY NOT EXCEED THE LONDON INTER-BANK OFFER RATE (LIBOR) FOR SIX MONTH MONEY PLUS A SPREAD OF 1.5 PERCENT WITH A KOREAN BANK GUARANTEE OR 2 PERCENT WITHOUT A GUARANTEE. THE BRANCH BANKS ARE FREE TO MARKET THIS PAPER IF THEY CHOOSE TO DO SO. THE MINISTRY OF FINANCE RESERVES THE RIGHT TO SPECIFY AN OVERALL CEILING FOR THIS TYPE OF FINANCING IF IT IS LATER DEEMED NECESSARY.

4. THE USE OF WHEAT, CORN, SOYBEANS AND BEEF TALLOW AS RAW MATERIALS FOR EXPORT IS NEGLIGIBLE, BUT ROUGHLY 75 PERCENT OF RAW COTTON IMPORTS GOES INTO EXPORT PRODUCTION. ALL IMPORTS OF CATEGORY 1 ITEMS ARE ELIGIBLE FOR THIS FINANCING. THE U.S. IS KOREA'S MAJOR SOURCE OF SUPPLY FOR PHOSPHATE ORE AND SCRAP IRON IN CATEGORY 1 AND FOR ALL ITEMS IN CATEGORY 2.

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5. THE RATIONALE FOR THIS MODIFICATION IS TO PROVIDE THE PARTICULAR INDUSTRIES INVOLVED WITH A FOREIGN EXCHANGE FINANCING ALTERNATIVE THAT FALLS BETWEEN THE USUAL MAXIMUM OF 180 DAYS FOR SHORT-TERM FINANCING AND THE MINIMUM 7 YEAR TERMS SPECIFIED IN THE GENERAL GUIDELINES FOR FOREIGN BORROWING (SEE REFTEL). BY PROVIDING THIS ALTERNATIVE IN ADDITION TO THE EXISTING EXCEPTION FOR 1-3 YEAR CCC FINANCING, MOF INTENDS TO EFFECTIVELY DISSUADE DOMESTIC FIRMS FROM SEEKING OUT OTHER SOURCES OF COMMODITY OR CASH LOANS, INCLUDING FINANCING ON TERMS OF SEVEN YEARS OR MORE WHICH MOF CONTENTS SHOULD BE USED ONLY FOR IMPORT OF CAPITAL EQUIPMENT. THE PRINCIPAL MOTIVE FOR RESTRICTING THE INITIAL SOURCE OF THIS FINANCING TO RESIDENT FOREIGN BRANCH BANKS IS TO ASSURE THAT THIS FINANCING CAN BE CAREFULLY MONITORED AND CONTROLLED BY MOF, A CONDITION THAT IS ALSO MET BY CCC FINANCING. A SECONDARY CONSIDERATION IS THAT IT PROVIDES ANOTHER INCENTIVE FOR RESIDENT FOREIGN BRANCH BANKS. AMERICAN BANKS WITH FULL BRANCH BANKS IN KOREA INCLUDE CHASE MANHATTAN, BANK OF AMERICA, FIRST NATIONAL CITY BANK (NEW YORK) AND FIRST NATIONAL BANK OF CHICAGO.

A FIFTH U.S. BANK, AMERICAN EXPRESS INTERNATIONAL, IS PLANNING TO OPEN A BRANCH BANK LATER THIS MONTH AND A SIXTH U.S. BANK, BANKER'S TRUST (NEW YORK), HAS RECEIVED A PRELIMINARY LICENSE TO EXPAND ITS REPRESENTATIVE OFFICE TO A BRANCH BANK WHICH IT TENTATIVELY PLANS TO HAVE IN OPERATION BY ABOUT YEAR'S END. ALL THE ABOVE BRANCHES ARE LOCATED IN SEOUL. FIRST NATIONAL CITY BANK ALSO HAS PRELIMINARY APPROVAL TO EXPAND ITS REPRESENTATIVE'S OFFICE IN PUSAN INTO A SECOND BRANCH BANK.
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